

American Diplomacy as a Tragic Drama

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As in a Greek tragedy whose protagonist brings about precisely the fate that he has sought to avoid, the US/NATO confrontation with Russia in Ukraine is achieving just the opposite of America's aim of preventing China, Russia and their allies from acting independently of U.S. control over their trade and investment policy. Naming China as America's main long-term adversary, the Biden Administration's plan was to split Russia away from China and then cripple China's own military and economic viability. But the effect of American diplomacy has been to drive Russia and China together, joining with Iran, India and other allies. For the first time since the Bandung Conference of Non-Aligned Nations in 1955, a critical mass is able to be mutually self-sufficient to start the process of achieving independence from Dollar Diplomacy.

Confronted with China's industrial prosperity based on self-financed public investment in socialized markets, U.S. officials acknowledge that resolving this fight will take a number of decades to play out. Arming a proxy Ukrainian regime is merely an opening move in turning Cold War 2 (and potentially/or indeed World War III) into a fight to divide the world into allies and enemies with regard to whether governments or the financial sector will plan the world economy and society.

What is euphemized as U.S.-style democracy is a financial oligarchy privatizing basic infrastructure, health and education. The alternative is what President Biden calls autocracy, a hostile label for governments strong enough to block a global rent-seeking oligarchy from taking control. China is deemed autocratic for providing basic needs at subsidized prices instead of charging whatever the market can bear. Making its mixed economy lower-cost is called "market manipulation," as if that is a bad thing that was not done by the United States, Germany and every other industrial nation during their economic takeoff in the 19th and early 20th century.

Clausewitz popularized the axiom that war is an extension of national interests – mainly economic. The United States views its economic interest to lie in seeking

to spread its neoliberal ideology globally. The evangelistic aim is to financialize and privatize economies by shifting planning away from national governments to a cosmopolitan financial sector. There would be little need for politics in such a world. Economic planning would shift from political capitals to financial centers, from Washington to Wall Street, with satellites in the City of London, the Paris Bourse, Frankfurt and Tokyo. Board meetings for the new oligarchy would be held at Davos's World Economic Forum. Hitherto public infrastructure services would be privatized and priced high enough to include profits (and indeed, monopoly rents), debt financing and management fees rather than being publicly subsidized. Debt service and rent would become the major overhead costs for families, industry and governments.

The U.S. drive to retain its unipolar power to impose "America First" financial, trade and military policies on the world involves an inherent hostility toward all countries seeking to follow their own national interests. Having less and less to offer in the form of mutual economic gains, U.S. policy makes threats of sanctions and covert meddling in foreign politics. The U.S. dream envisions a Chinese version of Boris Yeltsin replacing the nation's Communist Party leadership and selling off its public domain to the highest bidder – presumably after a monetary crisis wipes out domestic purchasing power much as occurred in post-Soviet Russia, leaving the international financial community as buyers.

Russia and President Putin cannot be forgiven for having fought back against the Harvard Boys' "reforms." That is why U.S. officials planned how to create Russian economic disruption to (they hope) orchestrate a "color revolution" to recapture Russia for the world's neoliberal camp. That is the character of the "democracy" and "free markets" being juxtaposed to the "autocracy" of state-subsidized growth. As Russian Foreign minister Sergey Lavrov explained in a press conference on July 20, 2022 regarding Ukraine's violent coup in 2014, U.S. and other Western officials define military coups as democratic if they are sponsored by the United States in the hope of promoting neoliberal policies.

Do you remember how events developed after the coup? The putschists spat in the face of Germany, France and Poland that were the guarantors of the agreement with Viktor Yanukovich. It was trampled underfoot the next morning. These European countries didn't make a peep – they reconciled themselves to this. A couple of years ago I asked the Germans and French what they thought about the coup. What was it all about if they didn't demand that the putschists fulfil the agreements? They replied: "This is the cost of the democratic process." I

am not kidding. Amazing – these were adults holding the post of foreign ministers.^[1]

This Doublethink vocabulary reflects how far mainstream ideology has evolved from Rosa Luxemburg's description a century ago of the civilizational choice being posed: barbarism or socialism.

The contradictory U.S. and European interests and burdens of the war in Ukraine

To return to Clausewitz's view of war as an extension of national policy, U.S. national interests are diverging sharply from those of its NATO satellites. America's military-industrial complex, oil and agriculture sectors are benefiting, while European industrial interests are suffering. That is especially the case in Germany and Italy as a result of their governments blocking North Stream 2 gas imports and other Russian raw materials.

The interruption of world energy, food and minerals supply chains and the resulting price inflation (providing an umbrella for monopoly rents by non-Russian suppliers) has imposed enormous economic strains on U.S. allies in Europe and the Global South. Yet the U.S. economy is benefiting from this, or at least specific sectors of the U.S. economy are benefiting. As Sergey Lavrov, pointed out in his above-cited press conference: "The European economy is impacted more than anything else. The stats show that 40 percent of the damage caused by sanctions is borne by the EU whereas the damage to the United States is less than 1 percent." The dollar's exchange rate has soared against the euro, which has plunged to parity with the dollar and looks set to fall further down toward the \$0.80 that it was a generation ago. U.S. dominance over Europe is further strengthened by the trade sanctions against Russian oil and gas. The U.S. is an LNG exporter, U.S. companies control the world oil trade, and U.S. firms are the world's major grain marketers and exporters now that Russia is excluded from many foreign markets.

A revival of European military spending – for offense, not defense

U.S. arms-makers are looking forward to making profits off arms sales to Western Europe, which has almost literally disarmed itself by sending its tanks and howitzers, ammunition and missiles to Ukraine. U.S. politicians support a bellicose foreign policy to promote arms factories that employ labor in their voting districts. And the neocons who dominate the State Department and CIA see the war as a means of asserting American dominance over the world economy, starting with its own NATO partners.

The problem with this view is that although America's military-industrial, oil and agricultural monopolies are benefitting, the rest of the U.S. economy is being squeezed by the inflationary pressures resulting from boycotting Russian gas, grain and other raw-materials exports, and the enormous rise in the military budget will be used as an excuse to cut back social spending programs. That also is a problem for Eurozone members. They have promised NATO to raise their military spending to the stipulated 2 percent of their GDP, and the Americans are urging much higher levels to upgrade to the most recent array of weaponry. All but forgotten is the Peace Dividend that was promised in 1991 when the Soviet Union dissolved the Warsaw Pact alliance, expecting that NATO likewise would have little reason to exist.

Russia has no discernable economic interest in mounting a new occupation of Central Europe. That would offer no gain to Russia, as its leaders realized when they dissolved the old Soviet Union. In fact, no industrial country in today's world can afford to field an infantry to occupy an enemy. All that NATO can do is bomb from a distance. It can destroy, but not occupy. The United States found that out in Serbia, Iraq, Libya, Syria and Afghanistan. And just as the assassination Archduke Ferdinand in Sarajevo (now Bosnia-Herzegovina) triggered World War I in 1914, NATO's bombing of adjoining Serbia may be viewed as throwing down the gauntlet to turn Cold War 2 into a veritable World War III. That marked the point at which NATO became an offensive alliance, not a defensive one.

How does this reflect European interests? Why should Europe re-arm, if the only effect is to make it a target of retaliation in the event of further attacks on Russia? What does Europe have to gain in becoming a larger customer for America's military-industrial complex? Diverting spending to rebuild an offensive army – that can never be used without triggering an atomic response that would wipe out Europe – will limit the social spending needed to cope with today's Covid problems and economic recession.

The only lasting leverage a nation can offer in today's world is trade and technology transfer. Europe has more of this to offer than the United States. Yet the only opposition to renewed military spending is coming from right-wing parties and the German Linke party. Europe's Social Democratic, Socialist and Labour parties share American neoliberal ideology.

Sanctions against Russian gas makes coal “the fuel of the future”

The carbon footprint of bombing, arms manufacturing and military bases is strikingly absent from today's discussion about global warming and the need to cut back on carbon emissions. The German party that calls itself Green is leading the campaign for sanctions against importing Russian oil and gas, which electric utilities are replacing with Polish coal and even German lignite. Coal is becoming the "fuel of the future." Its price also is soaring in the United States, benefitting American coal companies.

In contrast to the Paris Club agreements to reduce carbon emissions, the United States has neither the political capability nor the intention to join the conservation effort. The Supreme Court recently ruled that the Executive Branch has no authority to issue nation-wide energy rules; only individual states can do that, unless Congress passes a national law to cut back on fossil fuels.

That seems unlikely in view of the fact that becoming head of a Democratic Senate and Congressional committee requires being a leader in raising campaign contributions for the party. Joe Manchin, a coal-company billionaire, leads all senators in campaign support from the oil and coal industries, enabling him to win his party's auction for the Senate Energy and Natural Resources committee chairmanship and block any seriously restrictive environmental legislation.

Next to oil, agriculture is a major contributor to the U.S. balance of payments. Blocking Russian grain and fertilizer shipping threatens to create a Global South food crisis as well as a European crisis as gas is unavailable to make domestic fertilizer. Russia is the world's largest exporter of grain and also of fertilizer, and its exports of these products have been exempted from NATO sanctions. But Russian shipping was blocked by Ukraine placing mines in the sea lanes through the Black Sea to close off access to Odessa's harbor, hoping that the world would blame the world's imminent grain and energy crisis on Russia instead of the US/NATO trade sanctions imposed on Russia.^[2] At his July 20, 2022 press conference Sergey Lavrov showed the hypocrisy of the public relations attempt to distort matters:

For many months, they told us that Russia was to blame for the food crisis because the sanctions don't cover food and fertiliser. Therefore, Russia doesn't need to find ways to avoid the sanctions and so it should trade because nobody stands in its way. It took us a lot of time to explain to them that, although food and fertiliser are not subject to sanctions, the first and second packages of Western restrictions affected freight costs, insurance premiums, permissions for Russian ships carrying these goods to dock at foreign ports and those for foreign

ships taking on the same consignments at Russian harbours. They are openly lying to us that this is not true, and that it is up to Russia alone. This is foul play.

Black Sea grain transport has begun to resume, but NATO countries have blocked payments to Russia in dollars, euros or currencies of other countries in the U.S. orbit. Food-deficit countries that cannot afford to pay distress-level food prices face drastic shortages, which will be exacerbated when they are compelled to pay their foreign debts denominated in the appreciating U.S. dollar. The looming fuel and food crisis promises to drive a new wave of immigrants to Europe seeking survival. Europe already has been flooded with refugees from NATO's bombing and backing of jihadist attacks on Libya and Near Eastern oil-producing countries. This year's proxy war in Ukraine and imposition of anti-Russian sanctions is a perfect illustration of Henry Kissinger's quip: "It may be dangerous to be America's enemy, but to be America's friend is fatal."

Blowback from the US/NATO miscalculations

America's international diplomacy aims to dictate financial, trade and military policies that will lock other countries into dollar debt and trade dependency by preventing them from developing alternatives. If this fails, America seeks to isolate the recalcitrants from the U.S.-centered Western sphere.

America's foreign diplomacy no longer is based on offering mutual gain. Such could be claimed in the aftermath of World War II when the United States was in a position to offer loans, foreign-aid and military protection against occupation – as well as manufactures to rebuild war-torn economies – to governments in exchange for their accepting trade and monetary policies favorable to American exporters and investors. But today there is only the belligerent diplomacy of threatening to hurt nations whose socialist governments reject America's neoliberal drive to privatize and sell off their natural resources and public infrastructure.

The first aim is to prevent Russia and China from helping each other. This is the old imperial divide-and-conquer strategy. Minimizing Russia's ability to support China would pave the way for the United States and NATO Europe to impose new trade sanctions on China, and to send jihadists to its western Xinjiang Uighur region. The aim is to bleed Russia's armaments inventory, kill enough of its soldiers, and create enough Russian shortages and suffering to not only weaken its ability to help China, but to spur its population to support a regime change, an American-sponsored "color revolution." The dream is to promote a

Yeltsin-like leader friendly to the neoliberal “therapy” that dismantled Russia’s economy in the 1990s.

Amazing as it may seem, U.S. strategists did not anticipate the obvious response by countries finding themselves together in the crosshairs of US/NATO military and economic threats. On July 19, 2022, the presidents of Russia and Iran met to announce their cooperation in the face of the sanctions war against them. That followed Russia’s earlier meeting with India’s Prime Minister Modi. In what has been characterized as “shooting itself in its own foot,” U.S. diplomacy is driving Russia, China, India and Iran together, and indeed to reach out to Argentina and other countries to join the BRICS-plus bank to protect themselves.

The U.S. itself is ending the Dollar Standard of international finance

The Trump Administration took a major step to drive countries out of the dollar orbit in November 2018, by confiscating nearly \$2 billion of Venezuela’s official gold stock held in London. The Bank of England put these reserves at the disposal of Juan Guaidó, the marginal right-wing politician selected by the United States to replace Venezuela’s elected president as head of state. This was defined as being democratic, because the regime change promised to introduce the neoliberal “free market” that is deemed to be the essence of America’s definition of democracy for today’s world.

This gold theft actually was not the first such confiscation. On November 14, 1979, the Carter Administration paralyzed Iran’s bank deposits in New York after the Shah was overthrown. This act blocked Iran from paying its scheduled foreign debt service, forcing it into default. That was viewed as an exceptional one-time action as far as all other financial markets were concerned. But now that the United States is the self-proclaimed “exceptional nation,” such confiscations are becoming a new norm in U.S. diplomacy. Nobody yet knows what happened to Libya’s gold reserves that Muammar Gaddafi had intended to be used to back an African alternative to the dollar. And Afghanistan’s gold and other reserves were simply taken by Washington as payment for the cost of “freeing” that country from Russian control by backing the Taliban. But when the Biden Administration and its NATO allies made a much larger asset grab of some \$300 billion of Russia’s foreign bank reserves and currency holdings in March 2022, it made official a radical new epoch in Dollar Diplomacy. Any nation that follows policies not deemed to be in the interests of the U.S. Government runs the risk of U.S. authorities confiscating its holdings of foreign reserves in U.S. banks or securities.

This was a red flag leading countries to fear denominating their trade, savings and foreign debt in dollars, and to avoid using dollar or euro bank deposits and securities as a means of payment. By prompting other countries to think about how to free themselves from the U.S.-centered world trade and monetary system that was established in 1945 with the IMF, World Bank and subsequently the World Trade Organization, the U.S. confiscations have accelerated the end of the U.S. Treasury-bill standard that has governed world finance since the United States went off gold in 1971.^[3]

Since dollar convertibility into gold ended in August 1971, dollarization of the world's trade and investment has created a need for other countries to hold most of their new international monetary reserves in U.S. Treasury securities and bank deposits. As already noted, that enables the United States to seize foreign bank deposits and bonds denominated in U.S. dollars.

Most important, the United States can create and spend dollar IOUs into the world economy at will, without limit. It doesn't have to earn international spending power by running a trade surplus, as other countries have to do. The U.S. Treasury can simply print dollars electronically to finance its foreign military spending and purchases of foreign resources and companies. And being the "exceptional country," it doesn't have to pay these debts – which are recognized as being far too large to be paid. Foreign dollar holdings are free U.S. credit to the United States, not requiring repayment any more than the paper dollars in our wallets are expected to be paid off (by retiring them from circulation). What seems to be so self-destructive about America's economic sanctions and confiscations of Russian and other foreign reserves is that they are accelerating the demise of this free ride.

Blowback resulting from US/NATO isolating their economic and monetary systems

It is hard to see how driving countries out of the U.S. economic orbit serves long-term U.S. national interests. Dividing the world into two monetary blocs will limit Dollar Diplomacy to its NATO allies and satellites.

The blowback now unfolding in the wake of U.S. diplomacy begins with its anti-Russia policy. Imposing trade and monetary sanctions was expected to block Russian consumers and businesses from buying the US/NATO imports to which they had become accustomed. Confiscating Russia's foreign currency reserves was supposed to crash the ruble, "turning it into rubble," as President Biden promised. Imposing sanctions against importing Russian oil and gas to Europe was supposed to deprive Russia of export earnings, causing the ruble to collapse

and raising import prices (and hence, living costs) for the Russian public. Instead, blocking Russian exports has created a worldwide price inflation for oil and gas, sharply increasing Russian export earnings. It exported less gas but earned more – and with dollars and euros blocked, Russia demanded payment for its exports in rubles. Its exchange rate soared instead of collapsing, enabling Russia to reduce its interest rates.

Goading Russia to send its soldiers to eastern Ukraine to defend Russian speakers under attack in Luhansk and Donetsk, along with the expected impact of the ensuing Western sanctions, was supposed to make Russian voters press for regime change. But as almost always happens when a country or ethnicity is attacked, Russians were appalled at the Ukrainian hatred of Russian-language speakers and Russian culture, and at the Russophobia of the West. The effect of Western countries banning music by Russian composers and Russian novels from libraries – capped by England banning Russian tennis players from the Wimbledon tournament – was to make Russians feel under attack simply for being Russian. They rallied around President Putin.

NATO's trade sanctions have catalyzed helped Russian agriculture and industry to become more self-sufficient by obliging Russia to invest in import substitution. One well-publicized farming success was to develop its own cheese production to replace that of Lithuania and other European suppliers. Its automotive and other industrial production is being forced to shift away from German and other European brands to its own and Chinese producers. The result is a loss of markets for Western exporters.

In the field of financial services, NATO's exclusion of Russia from the SWIFT bank-clearing system failed to create the anticipated payments chaos. The threat had been so loudly for so long that Russia and China had plenty of time to develop their own payments system. This provided them with one of the preconditions for their plans to split their economies away from those of the US/NATO West.

As matters have turned out, the trade and monetary sanctions against Russia are imposing the heaviest costs on Western Europe, and are likely to spread to the Global South, driving them to think about whether their economic interests lie in joining U.S. confrontational Dollar Diplomacy. The disruption is being felt most seriously in Germany, causing many companies to close down as a result of gas and other raw-materials shortages. Germany's refusal to authorize the North Stream 2 pipeline has pushed its energy crisis to a head. This has raised the question of how long Germany's political parties can remain subordinate to

NATO's Cold War policies at the cost of German industry and households facing sharp rises in heating and electricity costs.

The longer it takes to restore trade with Russia, the more European economies will suffer, along with the citizenry at large, and the further the euro's exchange rate will fall, spurring inflation throughout its member countries. European NATO countries are losing not only their export markets but their investment opportunities to gain from the much more rapid growth of Eurasian countries whose government planning and resistance to financialization has proved much more productive than the US/NATO neoliberal model.

It is difficult to see how any diplomatic strategy can do more than play for time. That involves living in the short run, not the long run. Time seems to be on the side of Russia, China and the trade and investment alliances that they are negotiating to replace the neoliberal Western economic order.

America's ultimate problem is its neoliberal post-industrial economy

The failure and blowbacks of U.S. diplomacy are the result of problems that go beyond diplomacy itself. The underlying problem is the West's commitment to neoliberalism, financialization and privatization. Instead of government subsidy of basic living costs needed by labor, all social life is being made part of "the market" – a uniquely Thatcherite deregulated "Chicago Boys" market in which industry, agriculture, housing and financing are deregulated and increasingly predatory, while heavily subsidizing the valuation of financial and rent-seeking assets – mainly the wealth of the richest One Percent. Income is obtained increasingly by financial and monopoly rent-seeking, and fortunes are made by debt-leveraged "capital" gains for stocks, bonds and real estate.

U.S. industrial companies have aimed more at "creating wealth" by increasing the price of their stocks by using over 90 percent of their profits for stock buybacks and dividend payouts instead of investing in new production facilities and hiring more labor. The result of slower capital investment is to dismantle and financially cannibalize corporate industry in order to produce financial gains. And to the extent that companies do employ labor and set up new production, it is done abroad where labor is cheaper.

Most Asian labor can afford to work for lower wages because it has much lower housing costs and does not have to pay education debt. Health care is a public right, not a financialized market transaction, and pensions are not paid for in advance by wage-earners and employers but are public. The aim in China in

particular is to prevent the *rentier* Finance, Insurance and Real Estate (FIRE) sector from becoming a burdensome overhead whose economic interests differ from those of a socialist government.

China treats money and banking as a public utility, to be created, spent and lent for purposes that help increase productivity and living standards (and increasingly to preserve the environment). It rejects the U.S.-sponsored neoliberal model imposed by the IMF, World Bank and World Trade Organization.

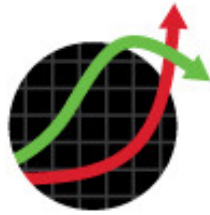
The global economic fracturing goes far beyond NATO's conflict with Russia in Ukraine. By the time the Biden administration took office at the start of 2021, Russia and China already had been discussing the need to de-dollarize their foreign trade and investment, using their own currencies.^[4] That involves the quantum leap of organizing a new payments-clearing institution. Planning had not progressed beyond broad outlines of how such a system would work, but the U.S. confiscation of Russia's foreign reserves made such planning urgent, starting with a BRICS-plus bank. A Eurasian alternative to the IMF will remove its ability to impose neoliberal austerity "conditionalities" to force countries to lower payments to labor and give priority to paying their foreign creditors above feeding themselves and developing their own economies. Instead of new international credit being extended mainly to pay dollar debts, it will be part of a process of new mutual investment in basic infrastructure designed to accelerate economic growth and living standards. Other institutions are being designed as China, Russia, Iran, India and their prospective allies represent a large enough critical mass to "go it alone," based on their own mineral wealth and manufacturing power.

The basic U.S. policy has been to threaten to destabilize countries and perhaps bomb them until they agree to adopt neoliberal policies and privatize their public domain. But taking on Russia, China and Iran is a much higher order of magnitude. NATO has disarmed itself of the ability to wage conventional warfare by handing over its supply of weaponry – admittedly largely outdated – to be devoured in Ukraine. In any case, no democracy in today's world can impose a military draft to wage a conventional land warfare against a significant/major adversary. The protests against the Vietnam War in the late 1960s ended the U.S. military draft, and the only way to really conquer a country is to occupy it in land warfare. This logic also implies that Russia is no more in a position to invade Western Europe than NATO countries are to send conscripts to fight Russia.

That leaves Western democracies with the ability to fight only one kind of war: atomic war – or at least, bombing at a distance, as was done in Afghanistan and the Near East, without requiring Western manpower. This is not diplomacy at all. It is merely acting the role of wrecker. But that is the only tactic that remains available to the United States and NATO Europe. It is strikingly like the dynamic of Greek tragedy, where power leads to hubris that is injurious to others and therefore ultimately anti-social – and self-destructive in the end.

How then can the United States maintain its world dominance? It has deindustrialized and run up foreign official debt far beyond any foreseeable way to be paid. Meanwhile, its banks and bondholders are demanding that the Global South and other countries pay foreign dollar bondholders in the face of their own trade crisis resulting from the soaring energy and food prices caused by America's anti-Russian and anti-China belligerence. This double standard is a basic internal contradiction that goes to the core of today's neoliberal Western worldview.

I have described the possible scenarios to resolve this conflict in my recent book *The Destiny of Civilization: Finance Capitalism, Industrial Capitalism or Socialism*. It has now also been issued in e-book form by Counterpunch Books.



The Destiny of Civilization

Finance Capitalism,
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or Socialism

Michael Hudson

